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In the Supreme Court of the United States

OCTOBER TERM, 1959.

No. 623.

TINNERMAN PRODUCTS INC.,
Petitioner,

vs.

PRESTOLE CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit.

ALBERT R. TEARE,
JEROME F. KRAMER,
1114 Terminal Tower,
Cleveland 13, Ohio,

DONALD A. FINKBEINER,
603 Toledo Trust Bldg.,
Toledo, Ohio,

WALTER I. KREWSON,
Park Bldg.,
Cleveland, Ohio,
Attorneys for Petitioner.

Of Counsel:
TEARE, KRAMER, STURGES & FETZER,
FINKBEINER & IDE.

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TINNERMAN PRODUCTS INC.,

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PRESTOLE CORPORATION,

Respondent.

PETITION FOR A WRIT OF CERTIORARI To the United States Court of Appeals For the Sixth Circuit.

Petitioner, Tinnerman Products Inc., prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Sixth Circuit entered in the above entitled case on October 21, 1959.

CITATIONS TO OPINIONS BELOW.

There were two unpublished opinions of the District Court. One is printed in the Record (R. p. 244a) and the other at (R. p. 254a) which forms part of the record in the Court of Appeals. The opinion of the Court of Appeals is printed in the Appendix hereto at page 17 and is reported in 271 F. 2d 146.

JURISDICTION.

The judgment of the Court of Appeals was entered on October 21, 1959 (Appendix p. 39). Rehearing was denied on December 4, 1959 (Appendix p. 39). The jurisdiction of this Court is invoked under 28 U. S. C. Sec. 1254(1).

FIRST QUESTION PRESENTED.

Where a License is granted to make and sell an article under a number of patents, one of which has a claim embodying a combination of elements, and where the combination claim is sufficiently broad to cover more than one form of one of the elements, is the anti-trust phase of the patent law to be extended so far as to declare that a patent is, as a matter of law, misused so as to render the contract unenforceable, where the contract does not expressly prohibit the manufacture or sale of any article, or of any element of the article, but rather in defining the limits of the license, the licensor refers to a particular shape of element that is not included in the license, and where, by way of illustration the shape of the element is identified in the contract (a) by general description and (b) by reference to a shape "such as shown and described" in four of Licensor's patents, one of which had expired at the time of execution of the contract, and another of which is one of the patents under which the license was granted.

SECOND QUESTION PRESENTED.

Where, in settlement of an action for infringement of a number of patents, an agreement is entered into between the patent owner and the defendant, under the terms of which the defendant paid a stipulated amount to the owner in return for which the owner granted (a) a release for past infringement (b) a paid-up license for the remaining term of some of said patents and (c) a non-exclusive license to make, use and sell devices under some of said patents at a royalty rate of five percent (5%) of the net sales price of the licensed devices, and where the last-mentioned agreement specified that if the owner should subsequently grant a license with "more favorable royalty terms," that a copy thereof should be delivered to the licensee within

a specified time, after which the licensee would have a specified time to determine whether it desired to adopt such "royalty terms," is the contract breached by the owner for failure to deliver a copy of the second license to the first licensee, within said specified time, where the second license was granted to a non-infringer, but specified a royalty rate of six per cent (6%) of the net sales price of the licensed devices and contained, additionally, a price-maintenance provision, together with a proffer of assistance by the owner to enable the licensee to become established in the business, and where the first licensee continuously paid royalty for about ten years notwithstanding the fact (a) that it had knowledge of the second license at the time of execution thereof and (b) rejected at such time an offer to adopt the price-maintenance provision of the second license.

STATUTES INVOLVED.

The statutory provisions involved are diversity of citizenship and amount in controversy, Act of June 25, 1948, c. 646, 62 Stat. 930, 28 U. S. C. Sec. 1332 (a)(1); Appellate Review, Act of June 25, 1948, c. 646, 62 Stat. 929, 28 U. S. C. Sec. 1291; certiorari, Act of June 25, 1948, c. 646, Stat. 928, 28 U. S. C. Sec. 1254 (1). The Patent Act, Act of July 19, 1952, c. 14, 66 Stat. 804, 35 U. S. C. 154. (See Appendix p. 40.)

STATEMENT AS TO FIRST QUESTION.

Petitioner has, since about 1923, been engaged in the manufacture and sale of sheet metal devices for fastening articles together, wherein the body of the fastener is provided with a pair of opposed flexible tongues which are struck from the body and which cooperate to engage the threads of a bolt for fastening the parts together. A

fastener having such tongues thereon is illustrated in Petitioner's patent No. 1,512,653 (R. p. 163a). They are used in the mass production industries to replace the ordinary nut and lock washer in a bolt and nut assembly. Petitioner is the owner of a number of patents pertaining to various fastener body formations, each of which utilizes the flexible tongues for the bolt thread-engaging element. The continuous use by Petitioner of fastening devices having a pair of tongues for the thread-engaging impression was regarded by Petitioner as indicative of fasteners which were made by it.

Respondent's predecessor in business, The Detroit Harvester Company, commenced the manufacture and sale of fastening devices which were asserted by Petitioner to be an infringement of some of its patents. Respondent had been utilizing a thread-engaging portion which was struck from the body of the fastener and had a frusto-conical appearance, as distinguished from a pair of opposing tongues of Petitioner's construction. The frusto-conical element of Respondent's fastener is illustrated in the patent to Lehman No. 1,457,039 (R. p. 159a). Fasteners having the Lehman impression became identified in the trade as those of The Detroit Harvester Company.

Petitioner brought an action for infringement against The Detroit Harvester Company, but the action was settled in advance of trial and dismissed. In settlement of the litigation, Detroit Harvester paid Petitioner the sum of Twelve Thousand Five Hundred ($12,500.00) Dollars in return for which Petitioner granted to Detroit Harvester Company (a) a Release for past infringement (b) a paid-up License under certain of Petitioner's Patents and (c) a non-exclusive License under other patents owned by Petitioner. Additionally, Detroit Harvester granted to Petition a Cross-License on a royalty basis under certain

patents which were owned by it. (PX1-R. p. 113a.)

The royalty agreement between Petitioner and The Detroit Harvester Company was executed August 18, 1942, (PX2-R, p. 114a), and contained the following granting clause:

> "1. Tinnerman hereby grants unto Detroit Harvester a non-exclusive right and License to make or to have made and to use and to sell, devices embodying the inventions covered by the said patents above described, or any of them, including any and all reissues and/or extensions of term thereof, upon the terms and conditions hereinafter set forth. Provided, however, that this License shall not include devices covered by said patents in which the thread-engaging portion comprises a pair of tongues, the ends of which are notched out and formed with screw thread-engaging edges intended for and used to receive a screw; such as shown and described in Tinnerman patents, Nos. 1,512,653; 1,928,469; 2,221,498; and 2,233,230."

Patent No. 1,512,653 (DX-15-R. p. 163a), expired October 21, 1941. The agreement, PX-2, aforesaid, was executed August 18, 1942 and was based upon three of Petitioner's patents, one of which was No. 2,233,230 aforesaid.

The royalty agreement granting a License from Detroit Harvester Company to Petitioner executed August 18, 1942 (PX-7 R. p. 129a), granted a License under four patents owned by Detroit Harvester and under two applications for patent which were pending at that time.

The License from Detroit Harvester to Petitioner stated in the granting clause:

> "1. Detroit Harvester hereby grants unto Tinnerman, a non-exclusive right and License to make or to have made, and to use and to sell devices embodying

the inventions covered by the said patents above described or any of them including any and all reissues and/or extensions of term thereof upon the terms and conditions hereinafter set forth. Provided, however, that this license shall not include devices covered by said patents in which the thread-engaging portion comprises a frusto-conical protuberance the edge portions of the opening being formed threadedly to receive a screw, such as shown and described in B. C. Place patent No. 2,169,056, dated August 8, 1939 and H. W. Kost patent No. 2,169,182, dated August 8, 1939."

The frusto-conical protuberance illustrated in the aforesaid Place and Kost patents is illustrated in the Lehman patent No. 1,457,039 aforesaid which expired on May 29, 1940.

On July 15, 1946 Respondent acquired by purchase the entire business of the Detroit Harvester Company in metal fastening devices and thereby became vested with the rights and obligations of the Detroit Harvester Company in the agreement of August 18, 1942. Respondent has manufactured and sold fastening devices under such license and has paid royalties continuously, the last payment having been made by the Respondent at the end of the quarter which terminated on September 30, 1953. Upon refusal of Respondent to make subsequent royalty payments as they became due, Petitioner, pursuant to the provision of paragraph 5 of the license agreement, delivered a notice of cancellation which became effective April 23, 1954.

On August 30, 1954, Petitioner filed its Complaint in the District Court for two causes of action: the first being for royalties due to Petitioner under the agreement between September 30, 1953 and the effective date of can-

cellation, April 23, 1954, and the second being for patent infringement resulting from the manufacture and sale by Respondent of devices after April 23, 1954.

On March 22, 1956 the District Court ordered a separate trial of the first and second causes of action and deferred a trial as to validity and infringement of the patents in suit. Jurisdiction of the District Court as to the first cause of action was invoked because of diversity of citizenship and the amount in controversy 28 U. S. C. 1332 (A 1).

On January 21, 1957 trial was had on the first cause of action and on June 24, 1957 the District Court rendered an opinion holding that the granting clause of Petitioner's License to Respondent did not operate to extend the life of Petitioner's expired patent, as was contended by the Defendant, and holding that the aforesaid quoted provision of the granting clause did not preclude the Defendant from making or selling the fastener construction which was claimed in the expired patent. The Court found that the Defendant was free to make the fastener construction claimed in the expired patent "in just the same manner as the public generally was free to make use of the fastener provisions covered by the expired patent."

The Court of Appeals reversed the District Court and held that the proviso of the granting clause was a prohibition against competition by Respondent and an extension of a monopoly in an expired patent and that such proviso constituted a misuse of the licensed patent.

The Court of Appeals further held that the fact that the general public was not forbidden to use the structure of the expired patent and that Respondent might use it in the manufacture of fastening devices, which did not contain the combination of the licensed patent, did not exonerate Petitioner from a charge of attempting to extend a monopoly in an expired patent.

In reaching the foregoing conclusion the Court of Appeals relied upon the opinion of this Court in *Scott Paper v. Marcalus Mfg. Co. Inc. et al.*, 326 U. S. 249; upon *Mercoid Corp. vs. Mid-Continent Investment Co. et. al.*, 320 U. S. 661; and upon *Timken Roller Bearing Co. v. U. S.*, 341 U. S. 593.

REASON FOR GRANTING THE WRIT AS TO THE FIRST QUESTION.

A review on writ of certiorari of the judgment of the Court of Appeals on the question of misuse of a patent in the manner specified in the granting clause of the license in question is deemed advisable, because it is a case of first impression and because it is an important question of Federal Law which has not been but should be settled by this Court. Respondent's brief in the Court of Appeals at page 21, stated "This type of restriction in a patent license agreement is evidently rare because no decided case directly in point has been found."

Misuse of a patent by extension of a monopoly usually arises by a tying-in clause which requires the licensee to purchase unpatented articles from the licensor, or prohibits a licensee from performing acts which he otherwise would be legally entitled to perform.

The language of the proviso in the granting clause at bar prohibits nothing. It simply states that no license is granted to a licensee to use a thread engaging portion having a pair of tongues for engaging the thread of a bolt. The thread-engaging portion was described without reference to any patent, and then, by way of illustration, reference was made to a thread-engaging portion "such as shown and described" in certain patents, one of which had expired and one of which formed the subject matter of the license.

A thread-engaging portion constituted only one element in the combination of the expired patent and it constituted only one element in the combination of the licensed patents. At the time of entering into the Agreement, the parties clearly understood that Petitioner's thread-engaging portion constituted an identifying characteristic of Petitioner's fasteners, and that Respondent's predecessor, The Detroit Harvester Company, was interested in making fasteners having a thread-engaging portion which, up to that time, had been identified with The Detroit Harvester Company. The simultaneous grant of a cross-license from Detroit Harvester to Petitioner, reciting that no license was given to Petitioner to use the frusto-conical form of thread-engaging impression, is adequate to demonstrate that neither party regarded the phraseology as a "prohibition." Respondent paid royalty for about ten years before questioning the proviso and then did so only as a defense to an action for recovery of royalties.

Petitioner did not condition its grant upon the obligation of Respondent to refrain from manufacturing anything. Respondent was free to manufacture fasteners having the thread-engaging portion described in the granting clause of the license, either on fasteners shown in the expired patent, or on fasteners shown in a licensed patent. If the former, Petitioner had no redress because of the fact that the patent had expired. If the latter, Petitioner had redress by an action for infringement on the ground that no license was given to Respondent to make a Licensed fastener having a particular form of thread engaging element therein.

Clearly, therefore, the Court of Appeals has so departed from the accepted and usual course of judicial pronouncement by this Court as to what constitutes mis-

use of a patent, as to call for the exercise of this Court's power of supervision.

The question presented is of importance in the administration of the patent laws, inasmuch as it concerns the right of a patent owner to grant a limited license under his patent.

In *United States v. General Electric Company*, 272 U. S. 476, 489, this Court has established the proposition that the owner of a patent may grant a License "upon any condition, the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." The decision of the Court below, therefore, is believed to be erroneous, and to be a departure from the accepted and usual course of proceedings as to call for an exercise of this Court's power of supervision.

The authority relied upon by the Court below presents no factual situation which is comparable to that at Bar. Thus, in *Scott Paper Company v. Marcalus Mfg. Co. Inc., et al.*, 326 U. S. 249, the question before this Court was only that of "estoppel" by a Licensor to have recourse to the prior art for the purpose of denying infringement. In that case, a Patentee after assigning his patent, engaged in the manufacture of a device which subsequently was charged by the assignee to be an infringement. The defense was that the entire device was a copy of that shown in an expired patent. The District Court held that the assignor was estopped to have recourse to the prior art for such purpose, but the Court of Appeals reversed the decision, and this Court affirmed the Court of Appeals.

In *Mercoid Corporation v. Mid-Continent Investment Company, et al.*, 320 U. S. 661, the action was for contributory infringement of a patent which claimed a system embodying three main elements—(a) a motor driven

stoker for feeding fuel to the combustion chamber of a furnace; (b) a room thermostat for controlling the feeding of fuel; and (c) a combustion stoker switched to prevent extinguishment of the fire. Suit was initially brought by Mid-Continent Investment Company against Mercoid Corporation, but subsequently Minneapolis-Honeywell Regulator Company was brought in as a party-plaintiff. Minneapolis was an exclusive licensee of Mid-Continent and had the right to grant sub-licenses. Neither Mid-Continent nor Minneapolis made or installed the system, but Minneapolis and its sub-licensees made switches which were intended for use in the system. Indeed, Minneapolis advertised that the "right to use" the patented system was "only granted to the user" when the switches of Minneapolis were purchased from it, and used in the system.

In finding that the patent was misused, this Court predicated its conclusion upon the fact that the competition which was sought to be controlled was not in the sale of a patented assembly, but merely in the sale of the unpatented thermostatic controls. Clearly, the decision was based upon a tying clause which obligated the licensee to purchase unpatented articles from the licensor.

Timken Roller Bearing Co. vs. U. S., 341 U. S. 593, was a Civil action brought by the United States to prevent and restrain violations of the Sherman Act by the Timken Roller Bearing Co. The action was based upon an alleged conspiracy with a British and French Company to restrain interstate and foreign commerce by eliminating competition in the manufacture and sale of anti-friction bearings in the markets of the world.

The philosophy which is applicable to the first question is, in our submission, that of freedom of contract and fair dealing rather than any restraint of trade. This Court in *Board of Trade of the City of Chicago, et al. vs. United*

States, 246 U. S. 231, has pointed out that every agreement concerning trade, and that every regulation of trade, operates to restrain and that the true test of legality is whether the restraint imposed is such as merely regulates, and perhaps thereby promotes competition, or whether it is such that may suppress or even destroy competition. The fact that no license was given to respondent did not operate to destroy the business of respondent, because the respondent was able to continue to operate and did, in fact, conduct a very substantial business in the licensed fasteners.

STATEMENT AS TO SECOND QUESTION.

Paragraph 12 of the license agreement (PX 2) (R. p. 117a) specified:

> "In the event that Tinnerman grants a license with more favorable royalty terms, then within thirty (30) days of the execution of such license a copy shall be delivered to Detroit Harvester and Detroit Harvester shall then have thirty (30) days in which to determine whether it desires to adopt such royalty terms."

In Paragraph 2 of the Plaintiff's Exhibit 2 it is stated:

> "Detroit Harvester hereby covenants and agrees to pay unto Tinnerman as and for a royalty of said license the sum equal to Five Percent (5%) of the net sales price of all said devices which are covered by one or more of said patents which said Detroit Harvester sells during the term of this license. * * *"

On August 30, 1946, Petitioner entered into a License Agreement with the Illinois Tool Works in which Petitioner granted a license under a number of its patents including at least two of those which were in the Detroit Harvester license. The Illinois Agreement (PX 8, R. p. 144a) states in Paragraph 2:

"The royalty shall be computed as follows upon the sales for each calendar year:

"Upon the first One Million Dollars of sales—6% . . ."

It is Petitioner's contention that "royalty terms" in Paragraph 12 of PX-2 means the *rate* of royalty and that inasmuch as the rate specified in Paragraph 2 of PX-2 is less than that specified in Paragraph 2 of PX-8 there was no obligation to deliver a copy of the Illinois Tool Works Agreement to Detroit Harvester within thirty days after the date of execution thereof. It is Respondent's position that "royalty terms" means the contract price and that any other provision of the contract which could be evaluated, by subsequent actions of the parties, as being more favorable to Illinois Tool Works amount to "more favorable royalty terms."

At the time Respondent entered into its agreement with Petitioner, Respondent had a going business in fasteners including machines, tools, dies and engineering and sales forces trained in the making and selling of fasteners. Moreover, the license to Respondent was granted as part of the price for settlement of an action for infringement.

The Illinois Tool Works, prior to the date of execution of the license agreement PX-8, had not been engaged in the manufacture of fastening devices. Paragraph 16 of its license (R. p. 149a) therefore provided that Tinnerman would:

"* * * at the request of Illinois, assist Illinois with such information as it may have in order that production can commence as rapidly as possible and in the event such assistance shall be given by Tinnerman in the plants of Illinois it shall be at Tinnerman's convenience, and Illinois will pay the cost of compensation

of such employees for time spent in going to and from and at Illinois plants."

There were other conditions specified in the Illinois license which were obviously less favorable to Respondent than to Illinois, such as (a) territorial restriction, (b) a price maintenance provision, (c) an obligation to proceed in good faith to manufacture and sell the devices and diligently build up the business therein as rapidly as possible (d) a limitation as to sales in foreign countries, (e) a restriction as to cancellation during the first five years of the agreement.

The price maintenance provision was offered to Respondent at about the time of execution of the Illinois Agreement but was rejected by Respondent. Additionally, Respondent knew of the existence of the Illinois agreement, for it was referred to in the Minute Book of the Directors of Respondent under date of December 12, 1947. Moreover, the existence of the license to Illinois was advertised by Petitioner in a number of trade publications (PX-14-19 inclusive) (R. pp. 138a and 139a).

To assist the District Court in reaching a decision on the contentions of the Petitioner and Respondent with respect to the meaning of the phrase "more favorable royalty terms" the Court granted a second oral argument and the right to file supplemental briefs. Thereupon, the Court rendered a Supplemental Memorandum Opinion (R. 254a) and held that the phrase "more favorable royalty terms" means that the parties intended to mean a more favorable royalty "rate" and did not intend to encompass more favorable "contract" terms. The Court held that, to conclude otherwise, would necessitate a redraft of the entire license agreement, and would charge the Respondent with the unfavorable terms in the Illinois agree-

ment, as well as those which Respondent considers to be more favorable terms.

The jurisdiction of the District Court on the second question is based upon diversity of citizenship and the amount in controversy, 28 U. S. C. Sec. 1332 (a) (1).

REASONS FOR GRANTING THE WRIT AS TO THE SECOND QUESTION.

Upon writ of certiorari this Court will dispose of all questions arising on the record. *Donovan vs. Pennsylvania Co.*, 199 U. S. 279.

The second question is an important question as it involves a question of law which has not been but should be settled by this Court. The question is whether "royalty" when used in connection with a license under a patent means the *rate* of compensation which is paid by the licensee to the licensor for the use of the invention, and whether in determining "more favorable royalty terms," the royalty rate is the determinative factor, or whether all conditions of the contract, whether favorable or unfavorable to the licensee are to be encompassed within the meaning of the phrase.

The trial court in holding that the phrase in question means the royalty rate relied upon *Tesra Co. vs. Holland Furnace Co.*, 73 Fed. 2(d) 553 and *Hazeltine Corp. vs. Zenith Radio Corp.*, 100 Fed. 2(d) 10.

The Court of Appeals, in reversing the trial court, cited *Corn Products Refining Co. vs. Federal Trade Commission*, 324 U. S. 726, but, that was an action involving the charge of violation of the Robinson-Patman Act, and turned on the question of discrimination in price at which an article was sold. The Court in that case was concerned with the interpretation of a legislative enactment and not

with the question of freedom of contract between parties, and the actions of the parties as a guide to their interpretation and intention with respect thereto.

CONCLUSION.

For the foregoing reasons this Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

ALBERT R. TEARE,
JEROME F. KRAMER,
1114 Terminal Tower,
Cleveland 13, Ohio,

DONALD A. FINKBEINER,
603 Toledo Trust Bldg.,
Toledo, Ohio,

WALTER I. KREWSON,
Park Bldg.,
Cleveland, Ohio,

Attorneys for Petitioner.

Of Counsel:

TEARE, KRAMER, STURGES & FETZER,
FINKBEINER & IDE.

December 28, 1959.

APPENDIX.

OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT.

(Filed October 21, 1959.)

Before MILLER, Circuit Judge; THORNTON and O'SULLIVAN, District Judges.

O'SULLIVAN, District Judge.

This cause, designated by plaintiff-appellee as a suit for specific performance of a patent license agreement, was brought by Tinnerman Products, Inc., against defendant-appellant, Prestole Corporation, to obtain an accounting of royalties claimed to be due to plaintiff from defendant. A second cause of action charged infringement of the licensed patents following termination of the license agreement. Defendant claimed breach of the license agreement, misuse of patents by plaintiff, and counterclaimed for damages.

Trial on plaintiff's claim for royalties, and defendant's counterclaim, resulted in judgment for plaintiff on both issues. A separate trial of the infringement action was ordered, and that cause is not here involved. This opinion will refer to plaintiff-appellee as Tinnerman, and defendant-appellant as Prestole.

Prior to the execution of the license agreement in question, Tinnerman had sued Detroit Harvester Company for infringement of patents owned by Tinnerman. That suit was settled, and dismissed. On the day of such dismissal, August 18, 1942, Tinnerman licensed Detroit Harvester Company to use two of the patents which, in the lawsuit so settled, Tinnerman claimed had been infringed. The license agreement required Detroit Harvester Company to pay royalties equal to five per cent of the net

sales price of all devices covered by the licensed patents to be sold by it during the term of the license agreement.

On the same day that Tinnerman granted the said license to Detroit Harvester, the latter concern licensed Tinnerman to use certain patents owned or applied for by it. The two contracts of that date, August 18, 1942, were, in effect, cross-licensing agreements.

Tinnerman and Detroit Harvester were manufacturers of devices for fastening, by means of threaded nuts and bolts, sections of sheet metal, in mass production industries. The patents involved were used in such devices. Both Tinnerman and Detroit Harvester had acquired patents relating to these devices besides the ones immediately covered by the license agreement sued upon.

The issues in this case involve, primarily, two provisions of the agreement by which Tinnerman granted a license to Detroit Harvester. They are as follows:

(a) In paragraph 1, after granting the license, the contract reads,

> "Provided, however, that this license shall not include devices covered by said patents in which the thread-engaging portion comprises a pair of tongues, the ends of which are notched out and formed with screw thread engaging edges intended for and used to receive a screw such as shown and described in Tinnerman Patents Nos. 1,512,653; 1,928,469; 2,221,498; and 2,233,230."

(b) Paragraph 12 provides,

> "In the event that Tinnerman grants a license with more favorable royalty terms, then within thirty (30) days of the execution of such license, a copy shall be delivered to Detroit Harvester and Detroit Harvester shall then have thirty (30) days in which to determine whether it desires to adopt such royalty terms."

On July 15, 1946, while the license agreements were still in effect, Prestole, with Tinnerman's consent, was assigned Detroit Harvester Company's interest in the agreements. Thereafter, the parties continued to operate under the license agreements in suit, Prestole paying royalties to Tinnerman until a last payment was made on September 30, 1953. Thereafter, Prestole continued to manufacture and sell devices upon which they had theretofore paid royalties, but paid no more royalties, claiming for reasons hereinafter detailed that Tinnerman had breached the license agreement. Tinnerman thereupon exercised its right to cancel its license to Prestole, and the agreement was cancelled, effective April 23, 1954. The royalties sought to be recovered in this action are those claimed to have become payable by Prestole to Tinnerman between September 30, 1953, and April 23, 1954.

Prestole resists Tinnerman's claim for royalties and bases its counterclaim for damages upon the charge, First, that in 1946, and without notice to Prestole, Tinnerman granted a license for use of the same patents covered by the Prestole license to a concern known as Illinois Tool Works, which license agreement gave the Illinois Tool Works more favorable royalty terms than those extended to Prestole—which action, Prestole claims, breached the Tinnerman-Prestole contract; and, Second, that by reason of certain restrictions in the Tinnerman-Prestole contract and a price fixing provision in the Tinnerman-Illinois contract, Tinnerman was guilty of misuse of the licensed patents.

The following facts are the background to Prestole's defense and counterclaim. On July 23, 1946, Tinnerman requested Prestole to join in an amendment to the existing license agreement whereby Prestole would agree to re-

frain from selling the devices manufactured under the license at prices more favorable than prices established by Tinnerman. Prestole refused to make the suggested amendment. Following such refusal, and on August 30, 1946, Tinnerman licensed Illinois Tool Works to use a number of patents owned by Tinnerman, including two patents covered by the existing agreement between Tinnerman and Prestole. This contract with Illinois required it to pay royalties of six percent upon the first one million dollars of sales in each calendar year and five percent upon sales in excess of one million dollars. This contract contained a price fixing clause substantially the same as the one which Prestole had refused to accept. Paragraph 16 of the Tinnerman-Illinois contract provided:

> "Tinnerman will, at the request of Illinois, assist Illinois with such information as it may have, in order that production can commence as rapidly as possible and in the event such assistance shall be given by Tinnerman in the plants of Illinois, it shall be at Tinnerman's convenience and Illinois will pay the cost of compensation of such employees for time spent in going to and from and at Illinois' plants."

Tinnerman gave no notice to Prestole of the making of this license agreement with Illinois. It did not advise Prestole of what it gave to Illinois pursuant thereto. Not until the imminence of this litigation was there ever a copy of such agreement made available to Prestole.

Prestole claims that by the quoted paragraph 12 and the services and information actually furnished by Tinnerman to Illinois pursuant thereto, Tinnerman did, in fact, grant a license with more favorable royalty terms than had been granted to Prestole.

From the time that Illinois was given its license to use the Tinnerman patents in 1946 through the year 1955,

Tinnerman furnished Illinois with all types of technical information required to get Illinois started producing plaintiff's products, including detailed drawings of parts, assistance on the machinery and equipment necessary to make the licensed products, and know-how which could not be put on paper; Tinnerman sent some of its technical personnel to train Illinois Tool Works in plaintiff's methods of manufacturing fastening devices covered by the license agreement with Illinois; Tinnerman sent some of its personnel to the Illinois plant to transfer technical information, and some Illinois personnel visited plaintiff's plant to obtain technical information regarding production of the licensed fasteners, and particularly with reference to the equipment on which they were made; Tinnerman transferred a great deal of technical information regarding the licensed products, including parts, prints, and drawings of all the fasteners which Illinois desired to produce under the license, and as soon as Tinnerman designed a new fastener within the scope of the Illinois license, Tinnerman furnished technical information respecting that fastener to Illinois.

As a supplement to the Tinnerman-Illinois license contract, Tinnerman, on September 9, 1946, gave Illinois the right to use Tinnerman's trade mark "Speed Nut." Prestole was not given this right. The Tinnerman-Illinois contract did not contain the restrictions against use of the licensed patents in devices containing the Tinnerman style of thread engaging portion, as was the case in the Tinnerman-Prestole contract.

The devices which were manufactured by Illinois and Prestole under the respective license agreements from Tinnerman, were identified as being so-called U and J Nuts and the U and J Nuts manufactured by Illinois pursuant

to its license from Tinnerman were manufactured according to Tinnerman's engineering design and had basically the same thickness of metal, dimension, form and shape. The furnishing of such technical information to Illinois by Tinnerman continued from the time of the making of the Tinnerman-Illinois license agreement until some time in the year 1955. Illinois made no payments of any kind to Tinnerman for these special services other than payment of the royalties provided for in the license contract.

Prestole contends that the furnishing of such technical information and engineering service without compensation amounted to a reduction in the royalties actually payable by Illinois to Tinnerman, with the result that Tinnerman had, in effect, granted to Illinois more favorable royalty terms than were available to Prestole. Prestole further contends, and offered evidence in support of such contention, that had Tinnerman furnished Prestole like assistance in its manufacture and production of the devices covered by the patents, the amount of saving effected thereby would have equalled an estimated six percent of the selling price of the devices upon which it paid royalties to Tinnerman. It argues, therefore, that had it had the opportunity to adopt the provisions of the Tinnerman-Illinois contract, the net royalties payable by it would have been greatly reduced if not actually, eliminated.

To support its claim in the above regard, Prestole put in evidence a computation made by its Secretary-Treasurer, who qualified himself as an expert cost accountant. His computation reviewed the engineering expenses shown by the books of Prestole as attributable to the devices upon which royalties were paid to Tinnerman. He used the period from January 1, 1947, to September 30, 1953, substantially covering the time from the commencement of the

Tinnerman-Illinois contract to the cessation of royalty payments by Prestole. He concluded that a total amount of $99,600.87 of the engineering expense of Prestole during that period was properly attributable to the manufacture and marketing of the devices upon which royalties were paid by Prestole to Tinnerman. He explained that the above amount was limited to engineering costs which were charged as expense upon the company's books and did not include expenditures made for final tool and die design after the preliminary engineering had been concluded and Prestole was ready to go into production. These final expenditures were capitalized, but he calculated that they amounted to at least as much as the expenditures charged to expense. The total of the two amounts, therefore, was about $200,000. This figure approximates six percent of the total sales upon which royalties were paid by Prestole to Tinnerman during the period covered. A saving in that amount would exceed the five percent royalty payable by it and be equivalent to the six percent royalty rate fixed in the Tinnerman-Illinois contract.

Prestole argues that its computation demonstrates that the Tinnerman-Illinois contract contained more favorable royalty terms—that, in fact, Tinnerman gave Illinois a royalty free license. Prestole claims that the Tinnerman-Illinois license and the conduct of Tinnerman under it was part of a design to remove Prestole as a competitor, after its refusal to join in a price fixing arrangement.

The evidence shows that a saving of six percent of the total sales of Prestole subject to royalties would, during the period of Tinnerman-Illinois operations up to September 30, 1953, amount to $199,201.74. The royalties paid by Prestole during that period totalled $166,001.46. Prestole, therefore, claims that it owes nothing for royalties and

asks recovery under its counterclaim of the aforesaid sum of $166,001.46.

Defendant's claim of misuse of patents is as follows:

> First—the license agreement between Tinnerman and Prestole's assignor contained the following proviso:
>
> "* * * this license shall not include devices covered by said patents in which the thread-engaging portion comprises a pair of tongues, the ends of which are notched out and formed with screw thread engaging edges intended for and used to receive a screw such as shown and described in Tinnerman Patents Nos. 1,512,653; 1,928,469; 2,221,498; and 2,233,230."

Of these Tinnerman patents, No. 1,512,653 had already expired at the time of the license agreement of August 18, 1942, and No. 1,928,469 expired some four years later. Prestole contends that by this limitation upon its use of the license patents, Tinnerman was seeking illegally to extend the monopoly of an expired patent and one that expired during the course of the license agreement.

> Second—in the license agreement between Tinnerman and Illinois there was a price fixing provision which Prestole claims was violative of the anti trust laws. It claims it should be permitted to assert such claimed illegality of the Tinnerman-Illinois contract as a defense in this suit and should, also, because of such claimed illegality be permitted as a part of its defense to attack the validity of the licensed patents.

We shall discuss these contentions in the order in which they are set out above.

(1) *More favorable royalty terms.*

The district judge was of the opinion that, "when the parties, in paragraph 12 of each of the license agreements

used the phrase 'more favorable royalty terms' they intended just that, and did not intend to encompass 'more favorable contract terms'." He concluded, therefore, that Tinnerman's agreement to furnish Illinois information, and its actual furnishing of engineering service, information and other things of value should not be considered as relating to royalty terms. Accordingly, he held that the value of such assistance should not be offset against the specified royalty rate in the Illinois contract in determining whether the end result was not, in fact, a reduction of the royalty payable by Illinois to Tinnerman. We disagree with this conclusion. The trial court quoted two definitions of royalty, as follows:

> "* * * A royalty is a payment proportionate to the use of a patented device. *Western Union Telegraph Co. v. American Bell Telephone Co.*, 125 F. 342, 348." *Tesra Co. v. Holland Furnace Co.*, 73 F. (2) 553, 554.
>
> "* * * 'Royalty' when used in connection with a license under a patent, means the compensation paid by the licensee to the licensor for the use of the licensor's patented invention * * *." *Hazeltine Corp. v. Zenith Radio Corp.*, 100 F. (2) 10, 16.

We think that adopting these definitions of royalty and considering a royalty as the cost, consideration, compensation, or price paid or incurred for a license, the specified rate should not be the sole criterion by which to determine what was in fact the price paid for the license. By furnishing at its own expense the assistance given, Tinnerman certainly was reducing the amount it was receiving, or charging, for the use of its patents, and was likewise reducing the cost, or price paid by Illinois for such use. Royalties, being the price or compensation to be paid, were, therefore, reduced and Illinois was given more favorable royalty terms than the recited six percent.

In the case of *Corn Products Refining Co. v. Federal Trade Commission*, 324 U. S. 726, it was contended by Corn Products Co., charged with violation of the Robinson-Patman Act, that the furnishing of services and other perquisites to a particular customer did not constitute discrimination in price. The Supreme Court, at page 740 of its opinion, stated:

> "Petitioners assert that the practices prohibited by § 2 (a) are discriminations in price, and not in the terms and conditions of sale other than price. They rely on the fact that in the course of the progress of the Robinson-Patman Bill through Congress, the phrase 'terms of sale' originally included in the prohibited discriminations, was stricken from the bill. But even if the contention be accepted, *we cannot ignore the fact that the present discriminations in the terms of sale operated to permit the favored customers to purchase at a lower price than other customers*, so that their only practical effect was to establish discriminations *in price*, precisely the evil at which the statute was aimed."

The obvious intent and purpose of paragraph 12 of the contract was to protect Prestole against a possible competitive disadvantage in the event of a license to a third party. It paid for such protection. Such was a reasonable and proper objective, and language employed should not be narrowly construed to frustrate that objective. We should look at the entire contract between Tinnerman and Illinois to see whether or not more favorable royalty terms were created by it.

We think the language used in the Tinnerman-Prestole contract indicates an intention that more than the mere recited percentage was to be considered. The contract provides that the licensee, Prestole, should, after being given notice and a copy of a second license agreement, have

30 days within which "to determine whether it desires to adopt such royalty terms." There would be no need for this provision if the licensee were to benefit only when the third party paid a lower percentage of royalty on its sales. In that case, the benefits could be made automatic, since there would be nothing for the licensee to "determine."

We conclude that the value of the information, services and assistance contracted to be given by Tinnerman to Illinois, and that which it actually gave, should be offset against the recited rate of royalty to determine what, in fact, were the royalty terms established by such contract. We further conclude that a fair review of the evidence in this case discloses that Tinnerman intended to, and did, provide more favorable royalty terms to Illinois. Tinnerman was, accordingly, bound under its contract to have given notice to Prestole of such contract and to give Prestole opportunity to adopt its terms.

It might be argued here that there was not sufficient evidence from which it could be determined that the services which Tinnerman contracted to supply Illinois were of sufficient substance to amount to a reduction in royalty terms. The language of paragraph 16 of the agreement with Illinois provides that "Tinnerman will, at the request of Illinois, assist Illinois with such information as it may have, in order that production can commence as rapidly as possible." In considering this, we keep in mind that this is a suit in which Tinnerman is seeking specific performance of its contract with Prestole. It is not in position to maintain such suit if it was, itself, continuously breaching it. Accordingly, we should consider how the above language was implemented by Tinnerman's conduct, not only at the very beginning of its licensing of Illinois, but

throughout the continuance of that contract and the contemporaneous enforcement of its contract with Prestole. It is apparent that it intended to, and did, give to Illinois a competitive advantage over Prestole contrary to the intention and to the language of the original Tinnerman-Prestole contract.

Tinnerman contends that notwithstanding that it gave no notice of the making of its license agreement with Illinois, Prestole had knowledge in 1946 and 1947 of this agreement, and failed to take action when it first learned of it; that Prestole is, accordingly, now estopped from relying on lack of notice. It is not necessary here to review in detail the evidence which Tinnerman offered to support such claim. It consisted of letters, trade journal publications and minutes of meetings of Prestole directors. We are satisfied that such evidence did not establish Prestole's knowledge of the terms of the Illinois contract or the extent or character of the assistance which Tinnerman was providing to Illinois. It is sufficient here to quote the trial judge's disposition of this claim, as follows:

> "If * * * certain conditions in the agreement (referring to the Tinnerman-Illinois agreement) are to be looked upon as supplemental royalty terms, then we see no reason why defendant should be charged with knowledge of the existence of the Tinnerman-Illinois agreement and should be required affirmatively to request a copy of the agreement, as contended by plaintiff."

As a matter of fact, in December, 1953, Tinnerman refused to furnish Prestole's attorneys with a copy of any of its license agreements, and it was not until 1954, when the dispute involved in this litigation was in full discussion, that Prestole's attorneys were allowed to inspect the Tinnerman-Illinois contract; they were told nothing of any

supplemental arrangements between Tinnerman and Illinois and were given no information as to the nature, quantity or value of the engineering services and assistance furnished pursuant to paragraph 16 of the Tinnerman-Illinois contract..

Tinnerman further contends that it had always interpreted paragraph 12 of the license agreement with Prestole as reserving to Tinnerman the right to decide whether more favorable terms had or had not been granted to a licensee; that only in the event that in Tinnerman's judgment such license included more favorable royalty terms, would it be required to give notice to Prestole. We disagree. If, as a matter of fact, the Tinnerman-Illinois contract did not grant more favorable royalty terms, no notice was required. If it did, notice was required, regardless of Tinnerman's own interpretation of the contract and its own conduct.

One further phase of this subject should be considered. At the time of the making of the Tinnerman-Illinois contract in 1946, Prestole was already producing devices under the Tinnerman license and, accordingly, it is claimed it did not need assistance, to get into production. The Tinnerman-Illinois contract provided that Tinnerman would give Illinois, "such information as it (Tinnerman) may have, in order that production can commence as rapidly as possible." Tinnerman argues that like assistance to Prestole was not necessary. The evidence, however, discloses that Prestole had problems of getting into production on each order for the devices in question. It continuously needed, and supplied itself with, the engineering work being contemporaneously supplied gratis to Illinois by Tinnerman. Tinnerman should not escape a charge of substantial breach of its contract by limiting consideration

to the rather vague language employed in granting the license to Illinois. We must look, also, to the manner in which Tinnerman and Illinois construed and implemented that language by performance under its auspices.

Tinnerman further claims that its 1946 agreement with Illinois had in it some provisions which were less favorable to the licensee than Prestole's license. These, it argues, should overcome any advantage to Illinois as to royalties. The Illinois agreement is more restricted than Prestole's as to territory; Illinois is bound by a price fixing provision; Illinois was required to proceed in good faith to manufacture and sell fastening devices and diligently build up and extend the business of marketing such devices as rapidly and fully as possible; Illinois was restricted as to its sales of fasteners in foreign countries; Illinois was not permitted to cancel the agreement during the first five years after its execution. These provisions were not in the Prestole contract. Such provisions, however, do not add to, or take away from, the price or consideration to be paid for use of the license. Even if we assume that Prestole, having been given notice of the Tinnerman-Illinois contract, would have had to adopt the above provisions, such assumption would not detract from the fact that Tinnerman failed to give Prestole an opportunity to adopt the Illinois contract with all its terms and, therefore, breached its contract. We conclude that Tinnerman breached its contract with Prestole and, accordingly, is not in a position to be aided by a decree specifically enforcing such contract in its behalf.

(2) *Misuse of patents.*

Defendant claims that Tinnerman misused its patents in two regards. (1) by prohibiting Prestole from using the licensed patents in any device which had a "thread

engaging portion" as described in certain patents, one of which had expired, and (2) by the inclusion of a price fixing provision in its license contract with Illinois.

(a) *Extension of monopoly of expired patent.* Tinnerman and Prestole's assignor, Detroit Harvester Company, had been in the business of manufacturing sheet metal nuts, or fastening devices. Patents involved in this suit had to do with this type of device. Prior to the making of the 1942 license agreement, Tinnerman and Detroit Harvester had used different methods for the "thread engaging portion" of the devices being manufactured by them. Each apparently had patents covering such operation. The cross licensing agreements of August 18, 1942, forbade the respective licensees, Tinnerman and Detroit Harvester, from using the licensed patents in connection with devices containing thread engaging portions which had been the subject of patents owned by the respective licensors. Tinnerman's grant of license to Detroit Harvester provided that:

> "This license shall not include devices covered by said patents in which the thread-engaging portion comprises a pair of tongues, the ends of which are notched out and formed with screw thread engaging edges intended for and used to receive a screw such as shown and described in Tinnerman patents Nos. 1,512,653; 1,928,469; 2,221,498; and 2,233,230."

Of the last mentioned patents, Tinnerman patent 1,512,653 had already expired at the time the above provision was included in the license agreement, and Tinnerman patent 1,928,469 expired some four years later. It is, however, unimportant on the point involved here that some of the mentioned patents had not expired. Our decision is controlled by the fact that one of them had expired. By the above condition in the license agreement,

Tinnerman was extending, so far as competition with Prestole was concerned in devices manufactured in combination with the licensed patents, a monopoly in an expired patent. We conclude that such conduct by Tinnerman constituted misuse of the licensed patents. The fact that the general public, other than Prestole, was not thereby forbidden the use of this then unpatented device and that Prestole might employ it in manufacturing equipment not containing the invention of the licensed patents does not, in our opinion, exonerate Tinnerman from a charge of attempting to extend, for its own purposes, a monopoly in an expired patent. We are of the opinion that the misuse thus attempted by Tinnerman was of the character condemned by adjudicated cases which have spoken on the subject. The following language of the Supreme Court of the United States in the case of *Scott Paper Co. v. Marcalus Manufacturing Co., Inc., et al.*, 326 U. S. 249 (255, 256) supports our views in this regard:

> "The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures. *Kellogg Co. v. National Biscuit Co.*, 305 U. S. 111, 117-120. If a manufacturer or user could restrict himself, by express contract, or by any action which would give rise to an 'estoppel' from using the invention of an expired patent, he would deprive himself and the consuming public of the advantage to be derived from his free use of the disclosures. The public has invested in such free use by the grant of a monopoly to the patentee for a limited time. *Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the*

patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws."

We have in mind that after the expiration of a patent, the invention originally protected thereby becomes, for all purposes, an unpatented device. The Courts have uniformly held that existing patents cannot, by conditions attached to license agreements, be used to create or extend a monopoly in unpatented articles.

In the case of *Mercoid Corporation v. Mid-Continent Investment Co. et al.*, 320 U. S. 661, an accused infringer interposed as defense to a charge of infringement that the plaintiff, "should be barred from relief because it was seeking to extend the grant of the patent to unpatented devices" (p. 662).

While the facts of that case are not directly in point with the case at bar, the principles involved are sufficiently analogous that the Court's reasoning is apposite here (pp. 664, 665, 666).

"Ever since *Henry v. A. B. Dick Co.*, 224 U. S. 1, was overruled by *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502, this Court has consistently held that the owner of a patent may not employ it to secure a limited monopoly of an unpatented material used in applying the invention. *Carbice Corp. v. American Patents Corp., supra; Leitch Mfg. Co. v. Barber Co., supra; Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488; *B. B. Chemical Co. v. Ellis*, 314 U. S. 495. In those cases both direct and contributory infringement suits were disallowed on a showing that the owner of the patent was using it 'as the effective means of restraining competition with its sale of an unpatented article'."

* * * * *

> "The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. *United States v. Masonite Corp., supra*, p. 277. The method by which the monopoly is sought to be extended is immaterial."

The following language of the District Judge in the case of *U. S. v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 313, was approved by the Supreme Court of the United States by its affirmance in *Timken Roller Bearing Co. v. U. S.*, 341 U. S. 593:

> "The proposition of law has been firmly established that the patent does not empower its owner to restrain trade in processes or devices which are not embraced within the scope of his patent."

We conclude, therefore, that Tinnerman's thus described misuse of the licensed patents forecloses it from specifically enforcing the license agreement.

(b) *Price fixing agreement.* Prestole claims that the price fixing provision of the Tinnerman-Illinois contract violated the anti-trust laws. It argues that, therefore, Tinnerman is forbidden here to enforce its license agreement with Prestole. Prestole relies upon the case of *U. S. v. Line Material Co.*, 333 U. S. 287, 307, wherein the Supreme Court said:

> "In the absence of patent or other statutory authorization, a contract to fix or maintain prices in interstate commerce has long been recognized as illegal per se under the Sherman Act."

In that case, the Supreme Court was dealing with cross-licensing agreements between patentees whose patents complemented each other and the commercial use of

either required it to be used in combination with the other. These cross-licensing agreements each had price fixing provisions, and forbade the respective licensees from granting any sub-licenses except where such sub-licenses contained like price fixing agreements. That *Line Material* case, however, did not overrule the doctrine of *U. S. v. General Electric Co.*, 272 U. S. 476, which sustains, as against a charge of violation of the anti-trust laws, a provision whereby a licensor under a valid patent restricts the price at which its licensee may sell articles manufactured under the license. The *Line Material* case restricted the application of *General Electric* case, but did not in the controlling opinion overrule it. As indicating the extent of its continued applicability, the Court, after reviewing it, stated at page 304:

> "* * * where a conspiracy to restrain trade or an effort to monopolize is not involved, a patentee may license another to make and vend the patented device with a provision that the licensee's sale price shall be fixed by the patentee."

In the case at bar, there was no showing that either Tinnerman or its licensee, Illinois, controlled any substantial part of the industry in the device in question. Only one license containing a price fixing agreement is involved here.

Other cases cited by Prestole dealt with situations where through multiple licensing and other devices monopolistic control was sought, obtained, or made possible. See *U. S. v. U. S. Gypsum*, 333 U. S. 364; *U. S. v. U. S. Gypsum*, 340 U. S. 76; *U. S. v. New Wrinkle, Inc.*, 342 U. S. 371; and *Newburgh Moire Company v. Superior Moire Company*, 237 F. (2) 283. We do not consider these cases in point here.

The District Judge disposed of Prestole's contention in this regard as follows:

> "Such price maintenance provision is not uncommon and is violative of no law unless a party or parties to the agreement are in a monopolistic position and the effects of the agreement would have a tendency to create a monopoly and thus operate in restraint of trade. There is nothing in the record before us that indicates that plaintiff was in a monopolistic position in the market or in such a dominant position as that the inclusion of such a price maintenance clause in an agreement with the licensee would tend to perfect or maintain a position of monopoly."

We are satisfied that the trial judge, on the record before him, committed no error in making such a finding.

(3) *Invalidity of Tinnerman patents.*

Additionally, Prestole contends that because under the rule of *Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U. S. 402; and *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173, a licensee under a license agreement containing a price fixing clause may defend a suit for royalties by challenging the validity of the licensed patents, Prestole should here be allowed to defend this action by challenging the validity of the Tinnerman patents. We disagree.

The Tinnerman-Prestole license agreement, here sued upon, does not contain any price fixing provisions. Under the rule of *U. S. v. Harvey Steel Co.*, 196 U. S. 310, and other authorities still recognized as the law, Prestole was estopped during the continuance of its use of the license from challenging the validity of the patents upon which it accepted such license. In the *Sola Electric Co. v. Jeffer-*

son Electric Co. case, *supra*, Chief Justice Stone, in discussing this rule of estoppel, said:

> "Where no price fixing stipulation was involved in the license contract, this rule of estoppel, which was not questioned by counsel, was applied without discussion in *United States v. Harvey Steel Co.*, 196 U. S. 310; cf. *Kinsman v. Parkhurst*, 18 How. 289. We need not decide whether in such a case the rule is one of local law, * * * or whether, if it be regarded as a rule of federal law because the construction and application of the patent laws are involved, it was rightly applied in *United States v. Harvey Steel Co.*, supra."

The *Sola*, *Katzinger* and *MacGregor* cases did not overrule *U. S. v. Harvey Steel*, supra, which we accept as still the law. Prestole, accordingly, is estopped in this action for royalties from challenging the validity of the Tinnerman patents. Whether Illinois might make such challenge were Tinnerman seeking to enforce its contract with Illinois is not, in our opinion, here involved. We do not think there is such connection between the two contracts as to make such defense available to Illinois usable in this action by Prestole.

(4) *Defendant's counterclaim.*

We affirm the District Judge's disallowance of the defendant's counterclaim. We have accepted the calculations of the defense expert as sufficient to show that Illinois was granted more favorable royalty terms than Prestole. We hold, also, that plaintiff is barred from recovery of royalties because of its misuse of the licensed patents. In its counterclaim, however, the burden was upon Prestole to prove its damages. Its estimate of damages assumed that all of its engineering costs during the

period in question would have been supplied to it had it adopted the terms of the Illinois contract. We, however, cannot assume that it would have requested from Tinnerman all of the engineering work actually done by it during the period in question. The integrity of its expert's calculations was not impaired by cross-examination and no proofs in opposition thereto were offered by the plaintiff. These calculations were sufficient, in our opinion, to demonstrate the substantiality of Tinnerman's breach of contract. We do not, however, feel that they were sufficient to permit the giving of judgment to Prestole for the amount of royalties already paid.

In a final assertion of error, Prestole, claiming misuse of patents by Tinnerman, charges that the District Court should have dismissed the plaintiff Tinnerman's action for infringement occurring subsequent to termination of the license agreement. The District Judge granted a separate trial as to this issue and we do not here concern ourselves with it.

Because we are of the opinion that Tinnerman breached its contract with Prestole in granting more favorable royalty terms to Illinois, and because of its misuse of the licensed patents in the licensing agreement, it cannot specifically enforce that contract. Accordingly, the judgment of the District Court is, to that extent, reversed, with direction to dismiss the plaintiff's action for specific performance of the agreement to pay royalties. The Court's disallowance of the defendant's counterclaim is affirmed.

JUDGMENT OF THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT.

(Filed October 21, 1959.)

Appeal from the United States District Court for the Northern District of Ohio.

This cause came on to be heard on the transcript of the record from the United States District Court for the Northern District of Ohio, and was argued by counsel.

On consideration whereof, it is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be and the same is hereby reversed with direction to dismiss plaintiff's action for specific performance of the agreement to pay royalties. The Court's disallowance of the defendant's counterclaim is affirmed.

ORDER DENYING PETITION FOR REHEARING.

(Filed December 4, 1959.)

This Court has reviewed petition for rehearing and request by appellee for disallowance of costs to the appellant; and upon due consideration thereof,

IT IS ORDERED, (a) the petition for rehearing is hereby denied; and (b) appellee's request for disallowance of costs to appellant is hereby denied.

RELEVANT STATUTES.

Act of June 25, 1948, c. 646, 62 Stat. 928 (28 U. S. C. 1952 ed., Sec. 1254).

Sec. 1254. COURTS OF APPEALS; CERTIORARI; APPEAL; CERTIFIED QUESTIONS.

Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree.

Act of June 25, 1948, c. 646, 62 Stat. 929 (28 U. S. C. 1952 ed., Sec. 1291).

Sec. 1291. FINAL DECISIONS OF DISTRICT COURTS.

The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the District Court for the Territory of Alaska, the United States District Court for the District of the Canal Zone, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court.

Act of June 25, 1948, c. 646, 62 Stat. 930 (28 U. S. C. 1952 ed., Sec. 1332).

Sec. 1332. DIVERSITY OF CITIZENSHIP; AMOUNT IN CONTROVERSY.

(a) The district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $3,000 exclusive of interest and costs, and is between:

(1) Citizens of different States.

Act of July 19, 1952, c. 14, 66 Stat. 804 (35 U. S. C. 1952 ed., Sec. 154).

Sec. 154. CONTENTS AND TERM OF PATENT.

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.